

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 7815

BILL NUMBER: HB 2005

NOTE PREPARED: Mar 3, 2003

BILL AMENDED: Mar 3, 2003

SUBJECT: Assessment of Exempt Property.

FIRST AUTHOR: Rep. Frenz

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: **X** GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill provides that a portion of a building is taxable if it is used for purposes other than certain exempt purposes. With respect to land, the bill eliminates acreage limitations, and establishes active use and other conditions for exemption. The bill permits separate assessment of exempt and taxable parts of a building or land.

This bill imposes taxes on the seller of exempt property under certain circumstances. It requires an exemption applicant to have the property assessed by the township assessor. The bill eliminates acreage limitations for exemption of church land.

The bill also imposes reporting, procedural, and rulemaking requirements on the Department of Local Government Finance (DLGF) concerning locally approved exemption applications. It withholds part of state Property Tax Replacement Fund distributions to a county if the county auditor fails to forward approved exemption applications to the DLGF. The bill requires the reporting of leases of certain exempt real property to entities other than nonprofit corporations. This bill also allows a refund for taxes payable in 2001 for certain churches or religious institutions.

Effective Date: (Amended) Upon Passage; July 1, 2003.

Explanation of State Expenditures: (Revised) Currently, county auditors must send a copy of all approved exemption applications to the DLGF and the DLGF must review them. This bill would require the DLGF to report the annual number of applications forwarded, the number investigated, and the number denied by the DLGF to the Legislative Services Agency by August 1st each year. The DLGF would have the authority to investigate any locally approved application and to inspect the property and the books and records of the owner. The refusal of an owner to comply with the inspection would be grounds for denying the exemption.

The DLGF would also be required to adopt rules regarding exempt property to provide just valuations and

ensure that assessments are made and recorded as otherwise required by law. The DLGF would also adopt rules regarding the timing of notifications that must be made when exempt property is leased to an entity that is not a non-profit organization.

The DLGF would complete these tasks with current resources.

Explanation of State Revenues: (Revised) The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The annual revenue reduction under this proposal would be minimal

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Buildings:* Under current law, a building that is owned, occupied, and used by a town, city, township, or county is exempt from property taxation if it is for educational, literary, scientific, fraternal, or charitable purposes. Under this bill, if part of the above property is used for a non-exempt purpose, that portion of the building would not be exempt.

Land: Under current law, up to 15 acres of land on which an exempt building is (or will be) situated is also exempt for most qualifying organizations. The current exceptions are educational institutions, which may exempt up to 150 acres, 4-H associations, which may exempt up to 200 acres, and tracts of land that were exempt on March 1, 1987, which may have up to 150 acres exempt.

This bill would remove all acreage limitations and allow the exemption for any amount of land that otherwise qualifies for the exemption. The removal of the acreage limitation would also apply to parsonages. Under this bill, the land would have to be owned *and* actively used primarily for educational, literary, scientific, religious, or charitable purposes. In addition, the building would also have to be used predominantly for educational, literary, scientific, fraternal, or charitable purposes in order for the land to qualify. The assessment of the land may be divided into exempt and non-exempt portions.

As stated above, under current law, a tract of land may qualify for an exemption even if no building exists on it. This is true if the owner demonstrates substantial progress towards the erection of the intended building within three years after the land is purchased and each year afterward. Under this bill, in addition to the substantial progress, the property owner would also have to actively pursue construction of the building.

Currently, a tract of land up to three acres in size is exempt if it is acquired to build or improve single-family housing that will be given away or sold in a charitable manner by a non-profit organization to low income individuals. The exemption ceases after the individual takes possession. This bill would remove the three-acre limitation and would also require that the property owner actively pursue construction of the building.

Assessment: The bill would require the owner of a building or tract of land for which an exemption is being requested to have the township assessor first assess the property. This provision would help build a better record of exempt property.

Termination: Under this proposal, an exemption would automatically terminate when a non-profit organization conveys property to another owner. If the sale price of the property exceeds the original price paid for the property, the seller would be liable for three years worth of property tax on the property as if the exemption did not exist. This provision could potentially increase local revenues.

Notification Compliance: Under currently law, county auditors must send a copy of all approved exemption applications to the DLGF. This bill would require the state to withhold state property tax replacement credit (PTRC) distributions that are attributable to the county reassessment fund if the county auditor fails to forward copies of the applications to the DLGF.

Leases: Under this proposal, exempt organizations that lease property to entities other than nonprofit corporations would be required to notify the county assessor of the lease. The county assessor would, in turn, notify the DLGF. Leased property that is used for a non-exempt purpose is not exempt from property tax under current law. This provision could help identify these properties and return the assessed value to the tax rolls.

Refund: The bill would allow a church or religious institution to file for a refund of property taxes paid in 2001 if the organization appealed to the former State Tax Board the county's denial of a land exemption and the organization paid the tax. This refund would be paid with interest at the rate of 4% per annum. Property tax refunds reduce the proceeds of current year taxes that are distributed to local civil taxing units and schools. Only one religious organization has been identified as meeting the refund criteria.

Tax Shift Analysis: In an effort to obtain information to estimate the impact of changing the exemption acreage limitations, LSA surveyed county auditors in August 2002. Responses to that survey were received from 39 of the 92 counties. The counties that responded reported that the number of acres of land owned by qualifying organizations exceeding the 15-acre limit in those counties is just over 14,000 acres and that the property tax payable in 2002 on that acreage was \$414,000. Seventeen counties reported no excess acreage and no tax due. The remaining reporting counties reported countywide tax due on this property ranging from a low of \$488 to a high of \$190,000, with half of the counties under \$5,000.

Some of the responses to this survey were incomplete and the responses to some questions were inconsistent with responses to others. These incomplete or inconsistent responses were excluded from the data used to impute statewide estimates. The survey also revealed that some counties grant exemptions for the total amount of land owned by the organization, regardless of the acreage cap imposed by the current statute.

Based on population and reported exemption levels from the county auditor abstracts, the statewide total acreage owned by tax exempt entities that exceeds the 15-acre limit is estimated at 40,000 to 45,000 acres and the 2002 property tax on that acreage is estimated at \$1.2 M to \$1.4 M. The post-reassessment tax on this property is estimated at \$700,000 to \$800,000, which would be shifted to other taxpayers if the acreage limit were completely removed. These shifts would begin with taxes paid in 2003. Some of the tax shifts could be partially mitigated if any assessed value is added back to the tax rolls under this bill for portions of property that are not being used for exempt purposes.

Total local revenues, except for cumulative funds, would remain unchanged in future years. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County assessors; County auditors; Township assessors.

Information Sources: Beth Henkel, Commissioner, Department of Local Government Finance (232-3777); LSA Survey of County Auditors, August, 2002.

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